

**CASE STUDY**

A married couple run two businesses in a town in Wales. One is a taxi firm and the other is a launderette. To help their review of their future business strategy they hired a local economist to research the markets. Extracts from her report provide the following information.

**The taxi firm**

There are eight other companies operating in the town charging similar prices. The elasticities of demand facing the firm are:

PED -1.5

YED 2.0

XED 1.6

New firms are due to move into the town over the next few years. It is also expected that the government will raise the tax on petrol in its next budget.

**The launderette**

There are three other launderettes operating in the town, all of which charge lower prices. Two years ago there had been six launderettes. The elasticities of demand in this case are:

PED -2.0

YED -1.8

XED 2.5

Ownership of washing machines is increasing and it is predicted that within three years 90% of the town's households will have a washing machine.

- a] Comment on the elasticities of demand facing the taxi firm. **(6)**
- b] If the couple want to raise the revenue they receive from the taxi firm should they raise or lower the price they charge? Explain your answer. **(4)**
- c] Comment on the elasticities of demand facing the launderette. **(6)**
- d] Distinguish between normal and inferior goods. **(4)**
- e] From the information given decide whether
  - i the taxi service is a normal or inferior good. Explain your answer. **(2)**
  - ii the launderette service is a normal or inferior good. Explain your answer. **(2)**
- f] Discuss whether the couple should expand or close down
  - i the taxi firm **(10)**
  - ii the launderette. **(10)**
- g] Discuss three measures the taxi company could take to increase demand for its service. **(6)**

**STRUCTURED ESSAY**

- a] Define and explain price elasticity of demand, cross elasticity of demand and income elasticity of demand. **(12)**
- b] How may knowledge of these concepts be used by a coach firm seeking to increase its revenue? **(13)**